

**Statement of the Honorable Leo S. Mackay Jr., PhD  
Deputy Secretary of Veterans Affairs  
Before the Committee on Veterans' Affairs  
United States House of Representatives  
June 10, 2003**

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Chairman Smith and Members of the Committee:

Thank you for inviting my testimony today. This Administration, and my Department, take very seriously our stewardship of America's programs of veterans benefits and services. We realize it is incumbent upon us to carry out our duties as efficiently as possible, in ways that protect the significant investment a grateful nation has made in these programs. President Bush set the proper tone with his comprehensive Management Agenda for maximizing the value of Federal programs.

Comments On The Inspector General's Testimony

Last month, VA's Inspector General appeared before you to discuss a number of matters that have been the focus of his office in recent years. Although some of the concerns he identified arose some time ago and have since been appropriately addressed, all merited action. I commend him for his testimony and the valuable service his office provides.

I respectfully request that you include in the record of today's hearing a paper we have provided to Committee staff that highlights the Department's actions in addressing each of the major areas covered by the Inspector General in his testimony before this Committee on May 8. While I would welcome discussion of any of the points covered in our paper, I want to specifically mention three areas in which serious shortcomings have been identified and addressed.

We have taken what I believe to be strong, effective steps in response to the OIG's findings of insufficient oversight of the time and attendance of part-time VA physicians. As surging demand for VA health care strains our capacity to provide sufficient access to care, it becomes even more imperative that we get the full measure of value from the salaries we pay our health-care professionals. The April 2003 OIG report demonstrated clearly that significant numbers of part-time physicians were not fully honoring the terms of their employment, and that VA was insufficiently vigilant in overseeing their compliance. We have required that all part-time physicians be counseled about time and attendance requirements and certify to their understanding of the rules. Refresher training has been given to all timekeepers, and all local time-and-attendance policies have been reviewed by VHA headquarters to ensure their validity and national consistency. A pilot program will test the efficacy of swipe cards to record part-time physicians' arrivals and departures at their VA duty sites. I can assure you

we will follow through to ensure that tours of duty are clearly understood and appropriately enforced.

We were of course deeply disturbed by the discoveries in recent years that a handful of VBA staff had been able to embezzle benefit funds. We now have in place a number of controls that greatly reduce the likelihood of recurrence of any such fraud. In fact, in December 2002 the auditing firm Deloitte and Touche reported that VBA's payment-authorization problem had been corrected. Among the safeguards now in place:

- All awards of VA benefits that are retroactive for periods exceeding two years require signatures attesting to the approval of three Regional Office employees, including the Service Center Manager or supervisory designee.
- Regional Office Directors or Assistant Directors must personally review all proposed compensation or pension payments in excess of \$25,000, and ensure proper third signatures on awards.
- Network Support Centers annually review all regional offices' compliance with internal controls for benefit delivery systems and applications.
- Payment reviews are conducted as part of regional-office site surveys by VBA's business lines and its Office of Resource Management.

- The Department's Financial Quality Assurance Service conducts analyses of improper payments as part of its financial quality assurance surveys.

The inspector General also identified a number of challenges VA faces in attaining "a more efficient, effective, and coordinated acquisition program."

Because VA annually procures some \$6 billion worth of pharmaceuticals, medical and surgical supplies, prosthetic devices, information technology, construction and services, it goes without saying that we must strive for best-possible value.

In 2001, the Secretary chartered a VA Procurement Reform Task Force to review a major OIG report issued that year on the subject of VA purchasing practices. Comprised of acquisition experts from across the Department, the task force issued a report containing 60 recommendations covering a wide range of issues including purchase-card controls, mandated health-care-supply purchases through a prescribed hierarchy of nationally negotiated contracts, and enhanced procurement partnerships with the Department of Defense. The Secretary promptly approved the task force recommendations, and good progress is being made toward their accomplishment.

To date, 25 of the 60 task force recommendations have been implemented. Among these is the highest-priority proposal, which was implemented in December of last year. VA policy now requires the use of

national committed-use contracts and Federal Supply Schedule contracts for the most frequently used health-care items. Our National Acquisition Center has received 208 offers from potential suppliers, including 122 who are new to VA. This increased vendor participation will result in optimum pricing and expanded purchasing power for VA and other Government agencies. In April of this year, all administrations and staff offices were issued a handbook mandating new procedures for ensuring the integrity of our purchase-card program.

Over time, the Task Force recommendations will result in organizational efficiencies that will free resources to help sustain high-quality VA health care for veterans. Improvements will come in avoiding costs -- getting more for existing dollars. It is anticipated that a cost avoidance of approximately \$250 million to \$450 million for medical/surgical and prosthetic items alone will be realized over the next five years. (These benefits will be in addition to cost avoidances VA has already realized through pharmaceutical national contracting.) In addition, yet undefined savings will result from the procurement system and procedural improvements after the entire 60-plus recommendations are implemented. The VA's PRTF cost avoidance from May 2002 through May 2003 has been approximately \$220 million.

Additional recommendations from the Task Force are on track as scheduled.

**Standardization Groups.** VA's efforts to leverage its buying power within the Department as well as in collaboration with other Federal agencies is also well underway. In February 2003, the Clinical Standardization Program established 10 Clinical Product Lines with 39 user groups. The 39 user groups have been given the assignment to evaluate and subsequently standardize medical supplies and equipment from the Veterans Health Administration (VHA) Top Fifty List. These fifty items constitute annual procurement costs of more than \$200,000,000. To date, the National Standardization Program has produced in excess of \$19,100,000 in savings/cost avoidance.

**National Item File.** The National Item File (NIF) is a key to improving inventory management. The information contained within the NIF is being expanded beyond current VA capabilities. These expansions include the addition of the Universal Product Number, known as the UPN, and the United Nations Standard Products and Services Code (UNSPSC). The development of the expanded NIF will be far reaching. The expected results of the NIF will allow standardization of the existing item files across VA, provide a clean and complete NIF for coreFLS, and identify product availability across the Nation. The NIF will bring together information from the Department of Defense, health care support organizations, and international organizations. Development of the NIF has been a very ambitious undertaking. We expect rollout to begin in FY 2004.

**VA/DoD Sharing.** VA and DoD continue to benefit from joint cost avoidance of the consolidated pharmaceutical procurement program. Projected

savings of \$480 million are expected in FY 2003, an increase over the savings from last year of \$369 million. To further expand our savings, we are actively working with DoD in the consolidation of medical/surgical commodities. Since the beginning of the year we have begun partnering with DoD for joint procurements of vital-sign monitors, medical/surgical instruments and cochlear implants. The joint project (Vital Signs Monitors) is in the final stages of the procurement process and is estimated to yield a substantial cost avoidance of \$750,000 annually. We are also in the process of developing a data base tool which will accelerate our price comparisons with DoD and thereby accelerate our joint procurements for medical/surgical products.

#### Legislative Proposals

In inviting us to appear today, you asked that we identify steps Congress could take “to help VA save money.” The following cost-saving or revenue-generating proposals were identified in the President’s FY ’04 budget request:

- Require annual fees for certain category 7 veterans, and all category 8 veterans, enrolling in VA’s health-care system;
- Increase the pharmacy co-payments to \$15 for each 30-day supply of medications obtained by certain veterans;
- Legislatively override the *Allen* decision, under which VA is now required to compensate service-disabled veterans for additional disability due to their abuse of alcohol or drugs; and

- Establish VA as a preferred provider for members of health-maintenance organizations (HMOs) and preferred-provider organizations (PPOs) so that VA may be reimbursed for non-service-connected care provided to members of these plans, as it is by other insurers.

Our *Allen*-case legislation, forwarded to the Congress in April, would itself result in mandatory savings estimated by the Administration to be \$127 million the first year and \$4.6 billion over ten years. Moreover, its enactment would put an end to a state of the law we consider unconscionable and an affront to most veterans. The same program that so fittingly compensates veterans for their combat-related disabilities should not be a source of payments to veterans *because* they are substance abusers. Congress established the appropriate policy when it provided in 1990 that “no compensation shall be paid if [a] disability is a result of [a] veteran’s own . . . abuse of alcohol or drugs.” VA is a recognized leader in the treatment of substance disorders, and that is an altogether appropriate role for the Government to assume. But paying veterans for the disabling effects of their own alcohol or drug abuse obviously can be a disincentive to their treatment and recovery. As currently interpreted by the courts, the law in this regard reflects a public policy bordering on absurdity. We urge your prompt enactment of our legislation.

We also request your help to ensure that VA-appropriation acts for FY ‘04 and beyond contain funding specifically earmarked for studies to compare the



costs of contracting for or performing in-house certain commercial activities required by the Veterans Health Administration. Current law, 38 U.S.C. §8110(a)(5), prohibits us from using medical-care funds or VHA personnel to perform these studies absent specific appropriations for the purpose. Specific appropriations were regularly enacted until FY 2001, and their enactment must resume if we are to achieve needed efficiencies and obtain best value for our health-care dollars.

### Management-Oversight Structures

Secretary Principi has established a governance structure that ensures management's close and careful oversight of the Department's business planning and performance. Among the major components of this structure:

**Strategic Management Council & VA Executive Board.** All major Department initiatives are vetted through the Strategic Management Council, chaired by me, and comprised of top officials of the three administrations (deputy-undersecretary level) and staff offices (assistant-secretary level). The SMC meets twice monthly to critically analyze proposed and ongoing initiatives having significant resource implications. Its mission is to review, discuss, and to provide recommendations to the Secretary on Department-wide policies, strategic direction, resource allocation, and performance in key areas. It makes recommendations for

actions and decisions to the VA Executive Board, the Department's senior management forum, which is chaired by the Secretary and comprised of myself, the three Under Secretaries, the Chief of Staff and General Counsel. The VAEB convenes as needed to receive and review the recommendations of the SMC.

**VA Business Oversight Board.** The mission of the Business Oversight Board is to review and oversee the performance, efficiency, and effectiveness of the Department's business processes, to include procurement, collections, capital-portfolio management, and business revolving funds. The Secretary serves as chairperson and I as vice-chair. Membership includes the three Under Secretaries, the Assistant Secretaries for Management and Information and Technology, and the General Counsel. The Board meets at least quarterly.

**Capital Investment Board.** The VA Capital Investment Board is the Department's primary review-and-recommendation mechanism for all significant capital investments. The Board ensures that investment decisions are based on sound economic practices and are linked to the Department's strategic goals. The Board also makes certain that each of the Department's highest priority recommendations gets equal consideration in the development of an overall capital plan.

**Asset Management.** VA is developing a capital-asset-management system (CAMS) with business processes and decision frameworks covering long-term management of VA's assets. This system will improve financial and analytical capability by allowing VA to track actual against planned performance, enabling commercial benchmarking, and improving service delivery. VA is striving to move beyond asset management to portfolio management, which involves leveraging an investment (or combination of investments) in order to minimize risk and maximize cost effectiveness and performance of assets.

These structures and processes are fostering a more business-like approach to our important work. As the President has said, "This Administration is dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used." We at VA owe that to all Americans, but especially to the veterans among them.

I would be pleased to respond to whatever questions you may have.